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Canada Enacts Important Updates to the Canada-U.S. Tax Treaty

The Honourable Jim Flaherty, Minister of Finance, today announced that, as a result of Bill S-2 having received Royal Assent, Canada has now completed the steps required in this country to give effect to the fifth Protocol to the Canada-United States Income Tax Convention. The Protocol will come into effect once it has been ratified by the United States and the two countries have formally notified each other that their procedures are complete.

"Modernizing this long-standing treaty will encourage further trade and investment in Canada and the United States and help us to better compete in the global economy," said Minister Flaherty. "I am hopeful that the U.S. will soon ratify the Protocol so that individuals and businesses on both sides of the border, including manufacturers, can realize the significant benefits of the updated treaty."

The agreement to modify the Convention was signed on September 21, 2007, at Meech Lake, Quebec, by Minister Flaherty and Henry M. Paulson, Jr., U.S. Secretary of the Treasury. First signed in 1980, the Convention has been updated four times in the past through agreements known as Protocols. Key measures of the fifth Protocol include:

- Eliminating withholding taxes on cross-border interest payments.
- Extending treaty benefits to limited liability companies.
- Allowing taxpayers to require that certain key double taxation issues, such as transfer pricing, be settled through arbitration.
- Ensuring that there is no double taxation on emigrants' gains.
- Giving mutual tax recognition of pension contributions.
- Clarifying how stock options are taxed.

"In this highly competitive global economy, we need to continually explore ways to grow, expand and compete," said Minister Flaherty. "Further improving and refining our

relationship with the United States, our largest trading partner, is essential. The fifth Protocol to the Canada-U.S. Tax Treaty is about looking ahead and being innovative."

The full text of the Protocol, two diplomatic notes setting out more technical aspects of the agreement and a backgrounder are attached and can also be viewed on the Department of Finance website.

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